<u>Outlook, Revenues, and the Case for a Tax Cut</u>

Testimony Before the House Budget Committee

Grover G. Norquist
President, Americans for Tax Reform

Budget and Economic Outlook

We believe the outlook for the federal budget over the next 10 years remains bright. The Congressional Budget Office projects that the historic increase in federal revenues we have seen over the last few years will continue, outstripping spending and producing growing budget surpluses.

The budget surpluses realized over the last three years are already unprecedented. Fiscal Year 2000 ended with a total surplus (both on budget surpluses and the off-budget transactions of Social Security and the Postal Service) of $236 billion. If CBO estimates for 2001 prove correct, we will have achieved the largest government surplus, relative to the size of the economy, since 1948, reaching 2.7 percent of GDP.

Even more encouraging than the growth in surpluses is the indication that the U.S. economy has achieved long-term productivity gains, insulating the U.S. economy from long-term, damaging recessionary pressures. The performance of the U.S. economy from 1995-2000 has been without match in recent economic history. CBO reports that average growth in GDP from 1974 –1995 was 2.8%. In the last five years, the U.S. economy has grown at an inflation-adjusted rate of 4.4%.

Such dramatic growth would seem impossible without a significant and sustained growth in labor productivity. Indeed, that was the case over the last five years. The trend rate of labor productivity growth from 1974-1995, according to CBO, was 1.5% annually. That growth rate nearly doubled, to 2.9% annually, from mid-1995 to 2000. I should also note that the White House economic baseline makes the safest assumption possible: 0% gains in productivity over the next 10 years.

The U.S. Economy Enters Uncharted Waters – Revenue Growth in the 1990s

In just a few short years, budget surpluses which once seemed impossible to imagine, have become a reality. Often overlooked in current budget discussions is just how we came to these surpluses.

Members of Congress deserve credit for reining in the explosive growth of government. Since 1991, federal outlays as a percentage of GDP, have fallen from an astounding 22.3% (nearly ¼ of the entire U.S. economy directed by the federal government) to 18.2% in 2000. This percentage is higher than we would like to see, but clearly, progress has been made.

Greater fiscal discipline, however, was not the most influential factor in producing the surpluses of today. On the contrary, today's surpluses have been produced through an historic growth in revenue – a product of a strong and growing economy. Revenues from individual income taxes increased by 10.8% in FY2000 alone. As GDP growth increased steadily from 1995-2000, so too did revenues as a percentage of GDP, reaching the peak of 20.6% in FY2000. CBO estimates that in FY2001, revenues, both nominally and as a percentage of GDP, will be the highest in the history of our nation.

I would submit that revenue trends above are not sustainable for a healthy economy. Clearly, our tax code, especially its reliance on high marginal taxation, is acting as a drag on the economy. Shockingly, as the economy has grown more quickly, growth in revenues has out-paced growth in GDP by a wider and wider margin. The more productivity gains the economy achieves, the larger is growth in revenues collected **beyond growth in GDP.**

We are currently entering uncharted economic waters. Never before has our economy faced such a high level of taxation. I believe that these historic levels play a large part in our current, short-term economic troubles. If not corrected, they could cause long-term damage to the American economy.

The Case For Tax Cuts

Normally, tax hikes hinder overall economic growth, but gains in productivity offset the Clinton tax increase's deleterious effects. The tax rates currently in place should never have been enacted to begin with, and now they threaten to undermine our less-than-robust economy by inhibiting the spending and investment of individuals and companies that make economic growth possible.

There are those who would maintain that tax cuts would make the budget surpluses collapse. Keep in mind these are often the same people who would blow those same surpluses on massively increased government spending. Surpluses are not, by definition, desirable. While arguably more desirable than deficits, a long string of surpluses can ultimately act as a drain on the private sector economy by shifting ever-increasing amounts of money to the public sector. Moreover, it is individual taxpayers who must pay the huge costs incurred by running surpluses. Simply put, repeated and enormous surpluses are **expensive**.

The tax cutting measures you are now considering strike a reasonable balance between ensuring that our federal government will satisfy its fiscal responsibilities and allowing the taxpayers of America to do what they see fit with the money they've earned. This balance will help America reach its great economic potential.

The only way to keep the economy from wobbling towards recession is to lighten every taxpayer's burden by bringing down every taxpayer's rates. **Every** taxpayer. And after all, it's their surplus, not the government's. Their property should be returned to them sooner instead of later, or as many in Congress would have it, not all.

# # #